



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

15-23

FINANCIAL-COMPLIANCE AUDIT

Montana State Library Commission

*For the Two Fiscal Years Ended
June 30, 2015*

APRIL 2016

FINANCIAL-COMPLIANCE AUDITS

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Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

April 2016

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State Library Commission for the two fiscal years ended June 30, 2015. During the course of the audit, we analyzed the financial schedules, reviewed financial records, and tested compliance with state laws and regulations. Included in this report is one recommendation related to internal controls over the revenue activity in the Montana Land Information account.

The Library's written response to the audit recommendation is included in the audit report at page C-1. We thank the Montana State Library Commission, the State Librarian, and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Montana State Library Commission	Colet Bartow,* Chair	Helena	
	Brent Roberts,** Vice Chair	Billings	December 2017
	Connie Eissinger	Brockway	June 2018
	Anne Kish	Twin Bridges	June 2017
	Aaron LaFromboise	Browning	June 2017
	Bruce Newell	Helena	May 2016
	Ken Wall	Missoula	June 2018

*Serving as Superintendent of Public Instruction's designee. There is no term limit for the designee.

**Appointed by the Commissioner of Higher Education for the Montana University System.

Administration

Jennie Stapp, State Librarian

Sarah McHugh, Director of Statewide Library Resources

Evan Hammer, Digital Information Manager/CIO

Kris Schmitz, Central Services Manager

For additional information concerning the Montana State Library Commission, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana State Library Commission

For the Two Fiscal Years Ended June 30, 2015

APRIL 2016

15-23

REPORT SUMMARY

The Montana State Library Commission administers state and federal funding to operate the state library; provides assistance and advice to all tax-supported libraries throughout the state; maintains a library of reading material for Montanans unable to utilize printed materials; and maintains a centralized clearinghouse for Montana's natural resources information and land data, a depository system for state government publications, and digital library services to Montana residents via the internet.

Context

During the audit of the Montana State Library Commission (Library) for fiscal years 2014 and 2015, we focused our efforts primarily on the Library's activity related to charges for services revenues, federal revenues, and grant expenditures. In fiscal years 2014 and 2015, the Library received \$850,926 and \$953,226, respectively, in charges for services revenue, and \$971,440 and \$1,105,858, respectively, in federal revenues. Our audit work included, but was not limited to, evaluating the accuracy and completeness of these revenue amounts by completing a sample of transactions, reviewing collection reports, and investigating results of analytical procedures that were not within the limits of our initial expectations.

Additionally of note, the Library distributed \$830,415 and \$863,205 in grant expenditures to various recipients in fiscal years 2014 and 2015, respectively. Audit work completed over grants included determining the accuracy of the grant allocation amounts calculated by the Library, and evaluating whether the intended grant recipients received the correct amount.

Additional audit procedures included developing an understanding of, and testing

various control procedures used by the Library, as well as reviewing and testing compliance with selected state laws and regulations.

Results

This report contains one recommendation to the Montana State Library Commission related to internal controls over financial recording. The Library did not have adequate controls in place to ensure the accuracy and completeness of charges for services revenues for fiscal years 2014 and 2015.

The prior audit report did not contain any recommendations.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (15-23) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

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Chapter I – Introduction

Audit Scope

We performed a financial-compliance audit of the Montana State Library Commission (Library) for the two fiscal years ended June 30, 2015. The objectives of this audit were to:

1. Obtain an understanding of the Library's control systems to the extent necessary to support our audit of the Library's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the Library.
2. Determine whether the Library's financial schedules present fairly the results of operations and changes in fund equity for each of the two fiscal years ended June 30, 2015, and June 30, 2014.
3. Determine whether the Library complied with selected state laws and regulations.

We achieved the stated objectives through focused communications with Library staff to develop an understanding of the control procedures in place related to the revenue and expenditure activity during our audit period, as well as through testing selected control procedures and performing substantive tests designed to determine the reasonableness of the Library's financial activity. We also determined compliance with various state laws and regulations through interviews with key Library personnel and reviewing supporting documentation.

Background

The Library is governed by five Governor appointees, the state superintendent of public instruction or the superintendent's designee, and a librarian appointed by the commissioner of higher education. The Library's focus is to strengthen Montana libraries by directing the development and improvement of library services, as well as to manage the state government, geographic, and natural resources information for all Montana citizens. The Library consists of three divisions with a total of 31.75 full-time equivalent employees (FTE) as discussed below.

Montana Digital Library Division: (17.25 FTE) increased by 3.5 FTE during fiscal year 2014 resulting from the transfer of the Base Map Service Center to the Library from the Department of Administration, authorized by Chapter 175, Laws of 2013. Within the division, Geographic Information provides comprehensive statewide geospatial information and consulting services, including the Natural Resource Information System (NRIS) which provides for the acquisition, storage, and dissemination of information concerning Montana's natural resources. The Natural

Heritage Program provides information on the status and distribution of the state's native plants and animals and manages the Montana Wetland and Riparian Mapping Center, the Montana Land Management Mapping Program, and the Montana Field Guide. The Water Information System is a program of NRIS, and provides access to information relating to Montana's water resources, and the State Publication Center maintains a comprehensive collection of state agency publications.

Statewide Library Resources Division: (10.0 FTE) provides the tools, training, and expertise to Montana libraries through various programs and resources including, Discover It!, Montana Shared Catalog (MSC), Statewide Library Consultants, Statewide Training and Certification, Ready 2 Read, Montana Talking Book Library, Montana Memory Project, and Library2Go. In fiscal year 2014, Montanans used Discover It! over 18.5 million times to search for information within the Library's resources. The MSC has members located in 94 communities across Montana and provides access to more than 5 million items to Montanans. The Library2Go is a statewide downloadable e-content service providing access to eBooks and downloadable audiobooks to patrons of the Montana Library2Go members. The Montana Talking Book Library provides free audio books and magazines to eligible Montana residents that are unable to use traditional print materials.

Central Services Division: (4.5 FTE) provides support to all of the Library's programs by performing accounting, fiscal management, payroll, and other administrative functions.

All of the financial activity from the three divisions discussed above is reflected in a singular Statewide Library Resources Program on the Library's Schedule of Expenditures and Transfers-Out beginning on page A-7.

Chapter II – Findings and Recommendations

Internal Control Over Montana Land Information Act Revenue

The Library does not have adequate controls in place to ensure revenue collected by another state agency is complete and accurate.

Chapter 175, Laws of 2013 transferred administration of the Montana Land Information Account from the Department of Administration to the Montana State Library Commission (Library) effective July 1, 2013. Section 7-4-2637(3)(a)(iii), MCA, requires Department of Revenue (DoR) to deposit 75 cents in the Montana Land Information Account from each of the recording fees they collect on a monthly basis. The Library is required by state policy to ensure the accuracy of the revenue that is collected and deposited in the account by DoR. In fiscal years 2014 and 2015, this revenue totaled \$671,909 and \$750,512, respectively.

During the audit, we determined the Library was not completing a reconciliation to ensure the revenue collected and recorded in the account by DoR was complete and accurate. State accounting policy requires management establish and maintain internal controls to ensure programs operate in conformance with laws and regulations, and that the related transactions are accurate. In addition, state policy requires each agency to perform a monthly reconciliation of revenue collected by a third-party to what is recorded in the Statewide Accounting, Budgeting, and Human Resources System (SABHRS). Since DoR is collecting revenue from various counties for deposit into the Montana Land Information Account, we consider DoR a third party collector for the purposes of this policy. Per Library personnel, the Library was unaware the county collection system at DoR could generate a SABHRS detail report that would enable them to complete a reconciliation.

After we brought this issue to Library personnel's attention in November 2015, a reconciliation of the fiscal year 2014 and 2015 revenue was performed. In order to confirm the completeness and accuracy of this revenue, we reviewed the monthly reconciliations for both fiscal years and tied the county collection report revenue to SABHRS. Our audit procedures determined the revenue was complete and accurate.

RECOMMENDATION #1

We recommend the Montana State Library Commission complete monthly reconciliations as required by state policy to ensure revenue collected by another state agency is complete and accurate.

Independent Auditor's Report and Library Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana State Library Commission for each of the fiscal years ended June 30, 2015, and 2014, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Montana State Library Commission's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Montana State Library Commission's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Montana State Library Commission as of June 30, 2015, and June 30, 2014, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the Montana State Library Commission for each of the fiscal years ended June 30, 2015, and 2014, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2016, on our consideration of the Montana State Library Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montana State Library Commission's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 17, 2016

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2014	\$ (246,735)	\$ 1,029,521	\$ 0	\$ 64,119
ADDITIONS				
Budgeted Revenues & Transfers-In		1,252,775	1,105,858	316,852
Nonbudgeted Revenues & Transfers-In		27,257		1,666
Prior Year Revenues & Transfers-In Adjustments			705	
Direct Entries to Fund Equity	3,351,561	562,135		(65,207)
Total Additions	3,351,561	1,842,166	1,106,563	253,310
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	3,312,598	1,968,104	1,106,563	329,182
Nonbudgeted Expenditures & Transfers-Out	(1,260)	1,936		9,261
Prior Year Expenditures & Transfers-Out Adjustments	204	(9,241)		
Total Reductions	3,311,542	1,960,800	1,106,563	338,443
FUND EQUITY: June 30, 2015	\$ (206,716)	\$ 910,887	\$ 0	\$ (21,013)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2013	\$ (260,076)	\$ 91,857	\$ 0	\$ 109,748
ADDITIONS				
Budgeted Revenues & Transfers-In		1,200,880	1,020,906	248,662
Nonbudgeted Revenues & Transfers-In		4,376		
Prior Year Revenues & Transfers-In Adjustments		(53,498)	687	
Direct Entries to Fund Equity	3,278,644	1,743,616		
Total Additions	3,278,644	2,895,373	1,021,592	248,662
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	3,272,405	1,935,946	1,021,592	277,558
Nonbudgeted Expenditures & Transfers-Out	(922)	27,317		14,451
Prior Year Expenditures & Transfers-Out Adjustments	(6,180)	(5,553)		2,282
Total Reductions	3,265,303	1,957,710	1,021,592	294,291
FUND EQUITY: June 30, 2014	\$ (246,735)	\$ 1,029,521	\$ 0	\$ 64,119

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
Taxes			705		705
Charges for Services	\$	953,226		\$ 316,852	1,270,078
Investment Earnings		1,375			1,375
Grants, Contracts, and Donations		207,107		1,666	208,773
Transfers-in		118,323			118,323
Federal			1,105,858		1,105,858
Total Revenues & Transfers-In	0	1,280,032	1,106,563	318,518	2,705,112
Less: Nonbudgeted Revenues & Transfers-In		27,257		1,666	28,923
Prior Year Revenues & Transfers-In Adjustments			705		705
Actual Budgeted Revenues & Transfers-In	0	1,252,775	1,105,858	316,852	2,675,484
Estimated Revenues & Transfers-In	1	1,258,193	1,106,080	317,738	2,682,012
Budgeted Revenues & Transfers-In Over (Under) Estimated	(1)	(5,418)	(222)	(886)	(6,528)

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Taxes	\$	(1)		\$	(1)
Charges for Services			(4,488)	(886)	(5,374)
Investment Earnings			(774)		(774)
Transfers-in			(157)		(157)
Federal					(222)
Budgeted Revenues & Transfers-In Over (Under) Estimated	(1)	(5,418)	(222)	(886)	(6,528)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
Taxes			\$ 687		\$ 687
Charges for Services	\$	850,926		\$ 248,662	\$ 1,099,588
Investment Earnings		1,604			1,604
Grants, Contracts, and Donations		186,440			186,440
Transfers-in		112,788			112,788
Federal Indirect Cost Recoveries			49,466		49,466
Federal	0	1,151,758	971,440	248,662	2,422,013
Total Revenues & Transfers-In			1,021,592		2,422,013
Less: Nonbudgeted Revenues & Transfers-In		4,376			4,376
Prior Year Revenues & Transfers-In Adjustments		(53,498)	687		(52,811)
Actual Budgeted Revenues & Transfers-In	0	1,200,880	1,020,906	248,662	2,470,448
Estimated Revenues & Transfers-In	1	1,201,472	1,021,065	249,485	2,472,023
Budgeted Revenues & Transfers-In Over (Under) Estimated	(1)	(592)	(160)	(823)	(1,575)
	\$	\$	\$	\$	\$
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Taxes	(1)				(1)
Charges for Services	\$	(503)		(823)	(1,326)
Investment Earnings		(49)			(49)
Transfers-in		(39)			(39)
Federal	(1)	(592)	(160)	(823)	(1,600)
Budgeted Revenues & Transfers-In Over (Under) Estimated					(1,575)
	\$	\$	\$	\$	\$

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
 Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>Statewide Library Resources</u>	<u>Total</u>
Personal Services		
Salaries	\$ 2,179,071	\$ 2,179,071
Other Compensation	1,350	1,350
Employee Benefits	780,773	780,773
Personal Services-Other	2,092	2,092
Total	<u>2,963,286</u>	<u>2,963,286</u>
Operating Expenses		
Other Services	1,941,996	1,941,996
Supplies & Materials	162,846	162,846
Communications	116,686	116,686
Travel	101,392	101,392
Rent	322,265	322,265
Repair & Maintenance	92,834	92,834
Other Expenses	128,589	128,589
Total	<u>2,866,607</u>	<u>2,866,607</u>
Equipment & Intangible Assets		
Equipment	13,652	13,652
Total	<u>13,652</u>	<u>13,652</u>
Grants		
From State Sources	863,205	863,205
Total	<u>863,205</u>	<u>863,205</u>
Post Employment Benefits		
Other Post Employment Benefits	5,776	5,776
Employer Pension Expense	4,821	4,821
Total	<u>10,597</u>	<u>10,597</u>
Total Expenditures & Transfers-Out	<u>\$ 6,717,348</u>	<u>\$ 6,717,348</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 3,311,542	\$ 3,311,542
State Special Revenue Fund	1,960,800	1,960,800
Federal Special Revenue Fund	1,106,563	1,106,563
Enterprise Fund	338,443	338,443
Total Expenditures & Transfers-Out	6,717,348	6,717,348
Less: Nonbudgeted Expenditures & Transfers-Out	9,937	9,937
Prior Year Expenditures & Transfers-Out Adjustments	(9,037)	(9,037)
Actual Budgeted Expenditures & Transfers-Out	6,716,448	6,716,448
Budget Authority	6,998,714	6,998,714
Unspent Budget Authority	<u>\$ 282,266</u>	<u>\$ 282,266</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 14,306	\$ 14,306
State Special Revenue Fund	79,275	79,275
Federal Special Revenue Fund	176,017	176,017
Enterprise Fund	12,668	12,668
Unspent Budget Authority	<u>\$ 282,266</u>	<u>\$ 282,266</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Statewide Library Resources	Total
Personal Services		
Salaries	\$ 2,089,056	\$ 2,089,056
Other Compensation	975	975
Employee Benefits	740,096	740,096
Personal Services-Other	686	686
Total	<u>2,830,813</u>	<u>2,830,813</u>
Operating Expenses		
Other Services	1,908,548	1,908,548
Supplies & Materials	216,173	216,173
Communications	108,645	108,645
Travel	113,435	113,435
Rent	328,942	328,942
Repair & Maintenance	53,563	53,563
Other Expenses	119,464	119,464
Total	<u>2,848,769</u>	<u>2,848,769</u>
Equipment & Intangible Assets		
Equipment	11,405	11,405
Total	<u>11,405</u>	<u>11,405</u>
Grants		
From State Sources	830,415	830,415
From Federal Sources	11,714	11,714
Total	<u>842,129</u>	<u>842,129</u>
Other Post Employment Benefits		
Other Post Employment Benefits	5,779	5,779
Total	<u>5,779</u>	<u>5,779</u>
Total Expenditures & Transfers-Out	<u>\$ 6,538,896</u>	<u>\$ 6,538,896</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 3,265,303	\$ 3,265,303
State Special Revenue Fund	1,957,710	1,957,710
Federal Special Revenue Fund	1,021,592	1,021,592
Enterprise Fund	294,291	294,291
Total Expenditures & Transfers-Out	6,538,896	6,538,896
Less: Nonbudgeted Expenditures & Transfers-Out	40,847	40,847
Prior Year Expenditures & Transfers-Out Adjustments	(9,451)	(9,451)
Actual Budgeted Expenditures & Transfers-Out	6,507,501	6,507,501
Budget Authority	7,324,038	7,324,038
Unspent Budget Authority	<u>\$ 816,537</u>	<u>\$ 816,537</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 12,852	\$ 12,852
State Special Revenue Fund	86,191	86,191
Federal Special Revenue Fund	710,088	710,088
Enterprise Fund	7,406	7,406
Unspent Budget Authority	<u>\$ 816,537</u>	<u>\$ 816,537</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Montana State Library Commission

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2015

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana State Library Commission (Library) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue). In applying the modified accrual basis, the Library records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Library to record the cost of employees' annual and sick leave when used or paid.

The Library uses accrual basis accounting for its Proprietary (Enterprise) fund category. Under the accrual basis, as defined by state accounting policy, the Library records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the Library receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order dated June 30 or earlier.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The Library uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program

purposes. Library State Special Revenue Funds include allocations of Coal Severance Taxes, Natural Resource Information System contracts with state and private entities, Montana Land Information, and other private donations.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Library Federal Special Revenue Funds include the Library Services and Technology Act grants and Natural Resource Information System contracts with federal entities.

Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the Library finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Library Enterprise Funds include Montana Shared Catalog.

2. General Fund Equity

The negative fund equity in the General Fund does not indicate overspent appropriation authority. The Library has authority to pay obligations from the statewide General Fund within its appropriation limits. The Library expends cash or other assets from the statewide fund when it pays General Fund obligations. The Library's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity for each of the fiscal years ended June 30, 2014 and June 30, 2015.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and Special Revenue include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund equity in the (General and Enterprise) funds also include: As a result of implementing a mandated change in GASB 68, there are additional pension expense accounts. The change in the accounting principle for GASB 68 for the enterprise fund results in a net decrease to fund equity in the amount of \$ 74,027 causing a negative fund equity balance in FY 15 of \$21,013. It does not indicate overspent authority.

Direct entry in the Special Revenue Fund was made in the Montana Land Information Act in the amount of \$1,182,033 to transfer this account permanently over to the Montana State Library from the Department of Administration based upon passage of HB00038. Effective July 1, 2013, this permanent transfer also resulted in a reclassification of revenue from Transfers in to Charges for Service-Clerk of Court Fees.

Report on Internal Control and Compliance

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana State Library Commission for each of the fiscal years ended June 30, 2015, and 2014, and the related notes to the financial schedules, and have issued our report thereon dated February 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Montana State Library Commission's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of Library's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montana State Library Commission's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 17, 2016

MONTANA STATE LIBRARY
COMMISSION

COMMISSION RESPONSE



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March 28, 2016

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 LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, Legislative Auditor
 Legislative Audit Division
 Room 135, State Capitol
 Helena, MT 59620

Dear Ms. Hunthausen:

I would like to thank the Legislative Audit staff for their work to complete the State Library Commission Financial-Compliance Audit for the two fiscal years ending June 30, 2015. I appreciate their professionalism and the rapport they established with our staff which made the process both thorough and efficient.

Recommendation #1

We recommend the Montana State Library Commission complete monthly reconciliation as required by state policy to ensure revenue collected by another state agency is complete and accurate.

Response:


Concur. The Library concurs with this finding; MSL will reconcile the County Collections Reporting System to the Montana State Library (MSL) monthly SABHRS org report. MSL org revenue can now be matched to this County Collection Report. This reconciliation is performed on a monthly basis and the process was added to our Internal Control Manual.

July 1, 2013 the Montana Land Information Account and program moved from the Department of Administration (DOA) to the Montana State Library (HB0038). Following the transfer, the State Library carried out the same internal controls administered by DOA. The GIS coordinator used the system to generate reports for tracking the revenue, projecting the revenue, and building a Land Plan budget for the Montana Land Information Advisory Council and the Montana State Library Commission. Fund balances and budgets were presented on a quarterly basis. Monitoring the revenue in this account has been essential to the operations of MSL because revenue declined significantly during this period so accurate revenue projections were necessary

to effectively plan for that revenue loss. MSL was unaware that the system could generate a SabhrsDetail report because this report was not a part of the previous controls. Now that we know that this reconciliation report is available, we will perform the reconciliation on a monthly basis.

I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely,



Jennie Stapp
State Librarian